MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BAC1644 – PRINCIPLES OF FINANCE

(All sections / Groups)

3rd MARCH 2017
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 5 Questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

Attempt all questions. All questions carry equal marks and the distribution of the marks for each question is given.

QUESTION 1

1. Upin Ipin Berhad purchases all inventories on credit and takes 60 days to pay to the suppliers. Upin Ipin sells the inventory in 90 days on average. Furthermore the company sells all inventories on credit and customers took 45 days to pay for their purchase. The operating cycle for the industry is 110 days while the cash cycle for the industry is 60 days. Based on this information :

a. Calculate the operating cycle and cash cycle of Upin Ipin Berhad.

(6 marks)

b. How do you interpret your answers found in 1(a)? Suggests **TWO (2)** ways to improve the situation.

(6 marks)

2. ABC is a young start-up company. No dividends will be paid on the stock over the next 8 years. The company will pay a RM8 per share dividend in Year 9 and will increase the dividend by 5% per year thereafter. If the required return on this stock is 12%, what is the current share price?

(8 marks)

[TOTAL 20 MARKS]

QUESTION 2

Interchange Berhad has the following two possible projects. The required return is 10.5%.

Year / Project	0	1	2	3
Project 1 (RM)	-72,000	27,000	32,000	38,000
Project 2 (RM)	-30,000	9,000	19,800	13,500

a. What is the profitability index for each project? Which project should the company accept?

(10 marks)

b. What is the NPV for each project? Which project should the company accept?

(8 marks)

Continued...

c. Based on the profitability index and NPV calculated above, which project should the company accept? Why?

(2 marks)

[TOTAL 20 MARKS]

QUESTION 3

Origin Bhd has 7.5 million share of common stock outstanding, 500,000 shares of 7% preferred stock outstanding, and 175,000 of 8.2% semiannual bonds outstanding, par value RM1,000 each. The common stock currently sells for RM64 per share and has a beta of 1.2, the preferred stock currently sells for RM108 per share, and the bonds have 15 years to maturity and sell for 96% of par. The market risk premium is 6.8%. T-bills are yielding 5.5%, and the firm's tax rate is 34%.

a. What is the firm's market value capital structure weights?

(8 marks)

b. If the firm is evaluating a new investment project that has the same risk as the firm's typical project, what rate should the firm use to discount the project's cash flows?

(12 marks)

[TOTAL 20 MARKS]

QUESTION 4

(a) Oligopoli Bhd has bonds on the market with 10.5 years to maturity, a YTM of 9.4%, and a current price of RM945. The bonds make semiannual payments. What must the coupon rate be on the bonds?

(6 marks)

(b) Prepare an amortization schedule for 3-year loan of $60,000. The interest rate is 9% per year, and the loan calls for equal annual payments. How much interest is paid in the third year? How much total interest is paid over the life of the loan?

(14 marks)

[TOTAL 20 MARKS]

Continued...

QUESTION 5

1. Interchange Bhd has no debt but can borrow at 7%. The firm's WACC is currently 12%, and there is no corporate tax.

a. What is Interchange's cost of equity?

(2 marks)

b. If the firm converts to 30% debt, what will cost of equity be?

(3 marks)

c. If the firm converts to 70% debt, what will cost of equity be?

(3 marks)

d. What is Interchange's WACC in part (b)? In part (c)?

(6 marks)

2. You are prepared to make monthly payments of RM175, beginning at the end of this month, into an account that pays 10% interest compounded monthly. How many payments will you have made when your account balance reaches RM50,000?

(6 marks)

[TOTAL 20 MARKS]

End of Page.